

**RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**

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RURAL WATER AND SEWER DISTRICT NO. 4,  
LINCOLN COUNTY, OKLAHOMA  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2013

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-5
Financial Statements:	6
Statement of Net Position	7
Statement of Revenues and Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial statements	10-15

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## Independent Auditor's Report

Board of Directors  
Rural Water and Sewer District No. 4,  
Lincoln County, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma as of June 30, 2013 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the District's management.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes determining that accounting principles generally accepted in the United States of America is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, as of June 30, 2013; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated September 5, 2013 on our consideration of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
September 5, 2013

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Rural Water and Sewer District No. 4, Lincoln County, Oklahoma

We have audited the financial statements of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma as of and for the year ended June 30, 2013 and have issued our report thereon dated September 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

**Compliance and Other Matters**

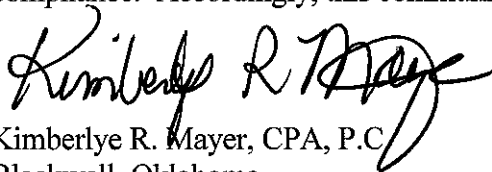
As part of obtaining reasonable assurance about whether Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Response to Findings**

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer". The signature is fluid and cursive, with the first name "Kimberley" written in a larger, more prominent script than the last name "Mayer".

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
September 5, 2013

RURAL WATER AND SEWER DISTRICT NO. 4, LINCOLN COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013

Material Weakness Communicated In Prior Year:

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

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RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION  
JUNE 30, 2013

ASSETS

Current Assets:

Cash and cash equivalents (Note 2)	\$ 17,114
Accounts receivable (less allowance for doubtful accounts of \$5,900)	50,778
Prepaid insurance	18,026
Total Current Assets	<u>85,918</u>

Restricted Assets:

OWRB restricted accounts	88,477
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Other Assets:

Loan fees (net of accumulated amortization) (Note 7)	41,263
Meter deposits	255
Total Other Assets	<u>41,518</u>

Non-current Assets:

Property and equipment (net of accumulated depreciation) (Note 3)	940,676
Construction in progress	<u>115,510</u>

Total Assets	<u><u>\$ 1,272,099</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities:

Accounts payable	\$ 21,954
Payroll taxes due	6,191
Customer and rental deposits	2,885
Notes payable (current portion) (Note 4)	45,000
Total Current Liabilities	<u>76,030</u>

Non-current Liabilities:

Notes payable, long term (Note 4)	395,000
Total Non-current Liabilities	<u>395,000</u>

Total Liabilities	471,030
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Net Position:

Net investment in capital assets	616,186
Restricted for debt service	88,477
Unrestricted	96,406
Total Net Position	<u>801,069</u>

Total Liabilities and Net Position	<u><u>\$ 1,272,099</u></u>
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RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2013

Operating Revenue:	
Water service	\$ 547,728
Sewer Revenues	37,427
Late penalties	26,273
Other revenues	52,782
Total Operating Revenue	<u>664,210</u>
Operating Expense:	
Wages	203,807
Payroll taxes	16,591
Employee benefits	41,260
Water costs	54,248
Water exam and permit fees	6,868
Operating supplies	28,025
Chemicals	9,348
Fuel	21,500
Repairs and maintenance	62,768
Insurance	22,403
Uniform rental	2,723
Professional fees	1,925
Advertising and promotion	2,424
Office supplies and postage	17,497
Meetings and training	1,944
Utilities and telephone	41,473
Trustee fees	2,000
Depreciation and amortization	57,870
Total Operating Expense	<u>594,674</u>
Income (Loss) From Operations	69,536
Non-operating Revenue (Expense):	
Capital improvement income	55,606
Interest income	94
System development fees	9,875
Interest expense	(12,626)
Total Non-operating Revenue (Expense)	<u>52,949</u>
Change in Net Position	122,485
Net Position, beginning of year	<u>678,584</u>
Net Position, end of year	<u><u>\$ 801,069</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013

Cash Flows From Operating Activities:

Cash received from customers	\$ 656,040
Other operating cash receipts	
Cash payments to suppliers for goods and services	(332,302)
Cash payments to employees for services	(203,807)
Net cash provided (used) by operating activities	<u>119,931</u>

Cash flows from non-capital financing activities:

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(169,268)
Principal paid on notes and loans	(39,629)
New borrowings	
Interest paid on notes and loans	(12,626)
System development and capital fees	65,481
Net cash provided (used) by financing activities	<u>(156,042)</u>

Cash flows from investing activities:

Interest on cash and investments	94
Decrease in Certificates of Deposit	20,065
(Increase) decrease in restricted accounts	(18,384)
Net cash provided (used) by investing activities	<u>1,775</u>

Net increase (decrease) in cash and cash equivalents	(34,336)
Beginning cash and cash equivalents	51,450
Ending cash and cash equivalents	<u>\$ 17,114</u>

Reconciliation of income (loss) from operations to  
net cash provided (used) by operating activities:

Income (Loss) from operations	\$ 69,536
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation and amortization	57,870
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,170)
(Increase) decrease in prepaids	(1,591)
Increase (decrease) in payables	2,286

Net cash provided (used) by operating activities	<u>\$ 119,931</u>
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RURAL WATER AND SEWER DISTRICT NO. 4,  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water and Sewer District No. 4, Lincoln County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 and the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services.

The District is a governed entity administered by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of seven elected board members. Of the seven, four are elected as officers of the District.

Basis of Accounting

The accounting policies of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 – CASH AND CASH EQUIVALENTS:

The District considers all checking and savings accounts (except restricted accounts) and deposits with a maturity of three months or less to be cash equivalents.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

NOTE 3 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2013 was \$52,868. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>6/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/13</u>
Land	\$ 72,441	\$	\$	\$ 72,441
Vehicles	81,414			81,414
Buildings and improvements	49,721	1,150		50,871
Waterline system	1,503,069	47,750		1,550,819
Sewer system	151,391			151,391
Meter installation	26,701			26,701
Office equipment	35,406	30,474		65,880
Machinery and equipment	207,600			207,600
Accumulated depreciation	(1,213,624)	(52,817)		(1,266,441)
Net	<u>\$ 914,119</u>	<u>\$ 26,557</u>	<u>\$</u>	<u>\$ 940,676</u>

NOTE 4 – NOTES AND LOANS PAYABLE:

During the year ended June 30, 2003, the District entered into a note agreement with the Oklahoma Water Resources Board for \$335,000. The proceeds from this note were used to pay loan costs, set up a debt reserve fund, and to pay for construction costs for the improvement and expansion of its waterline system. The payments are semiannual with a variable interest rate adjusted every six months. The interest rate is currently 1.35% and the term of the note is 30 years.

On June 26, 2006 the District entered into a note agreement with the Oklahoma Water Resources Board for \$300,000. The proceeds of this note are to be used to pay for costs of drilling a new well. The payments are semiannual with a variable interest rate adjusted every six months. The interest rate is currently 1.755% and the term of the note is 30 years.

During the year ended June 30, 2012, the District entered into a note agreement with the Oklahoma Water Resources Board for \$465,000 to refinance the above two notes. The interest rate is 3.14% and the term of the note is 9½ years.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

NOTE 4 – NOTES AND LOANS PAYABLE (Continued):

The following is a summary of the District's future annual debt requirements:

<u>Year Ending</u>	<u>OWRB</u>	<u>Principle</u>	<u>Interest</u>
6/30/14	\$ 57,260	\$ 45,000	\$ 12,260
6/30/15	56,540	45,000	11,540
6/30/16	55,480	45,000	10,480
6/30/17	54,380	45,000	9,380
6/30/18	57,990	50,000	7,990
6/30/19-6/30/22	224,620	210,000	14,620
	<u>\$ 506,270</u>	<u>\$ 440,000</u>	<u>\$ 66,270</u>

NOTE 5 – WATER PURCHASE COMMITMENT:

The governing board of the Rural Water and Sewer District No. 4, Lincoln Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the USDA-Rural Development to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member has contracted to purchase a minimum amount of water from the Association during the 40 year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The District is contingently liable for approximately 8% of the obligations of the Association. At June 30, 2013, the Association's debts did not exceed its assets.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

NOTE 5 – WATER PURCHASE COMMITMENT (Continued):

At June 30, 2013, the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, was obligated to purchase a minimum of 21.6 million gallons of water annually, currently at a cost of \$43,200. The rate charged for the water can be adjusted every three years to provide sufficient revenues for the Association. Future purchase commitments at current rates are as follows:

6/30/14	\$ 43,200
6/30/15	43,200
6/30/16	43,200
6/30/17	43,200
6/30/18	43,200
Thereafter	<u>536,760</u>
Total	<u>\$ 752,760</u>

During the year ended June 30, 2004 the District entered into a water purchase contract with the Town of Chandler. The District is obligated to purchase a minimum of 250,000 gallons annually at a rate of \$700 per month. Future purchase commitments are as follows.

6/30/14	\$ 8,400
6/30/15	8,400
6/30/16	8,400
6/30/17	8,400
6/30/18	8,400
Thereafter	<u>210,000</u>
Total	<u>\$ 252,000</u>

NOTE 6 – ACCOUNTS RECEIVABLE:

The accounts receivable at June 30, 2013 consist of amounts due from customers for water and sewer services.

NOTE 7 – AMORTIZATION OF LOAN COSTS:

The loan costs are being amortized over the life of the loan. Total amortization for the year ended June 30, 2013 was \$5,002.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

NOTE 8 – RETIREMENT PLAN:

The District maintains a retirement plan for its qualified employees. The District contributes 7% of the employees gross wages to this plan. The amount contributed by the District during the year ended June 30, 2013 was \$12,671.

NOTE 9 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

NOTE 10 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At June 30, 2013, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 11 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 12 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District has had no claims that exceeded its insurance coverage.



RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 14 – CONTINGENCIES:

As of June 30, 2013, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 15 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through September 5, 2013, the date which the financial statements were available to be issued.